The second factor was the direct investment control program which is still under consideration. The third factor which made the accounts favorable was a large increase in special transactions. Those as you know are transactions in nonliquid investments with foreign governments and other official bodies. Now the exact nature of these special transactions is always somewhat obscure because to some extent foreign governments may have been more willing to buy those CD's and similar securities because of our high interest rates. So I would say that these are the main factors.

However, there is still another one which is perhaps even more uncertain; namely, the large purchases by foreigners of American equities, and in the case of equities we just do not have much knowledge on which to base any prediction as to what might happen in 1969 and the following years.

We know from the past records that equity purchases are quite volatile and I think that therefore we cannot be very sure that this kind of large movement will continue.

I think that also in the case of the other securities which contributed to the favorable capital account that there may have been something of a-once-and-for-all movement since our interest rates moved up rather suddenly in parity with European interest rates, approximate parity, this may have caused a-once-and-for-all move of purchasers and there again our knowledge is not—is very imperfect, and I think it is very difficult to predict our capital account movement.

Senator PERCY. Would you, Dr. Stein, or Dr. McCracken, state as to what our trade account balance of payments is likely to be in 1969?

Mr. HOUTHAKKER. There is, I think, not complete unanimity as to the outlook for the trade account. I think any slowdown in our rate of growth will have a favorable effect.

The increase of 23 percent in imports which we had in 1968 over 1967 is certainly an abnormal one and cannot be explained by any of the studies that I am aware of. In other words, 23 percent is much more than seems to be in line with previous experience. So we can certainly look forward to considerable reduction in the rate of growth of imports.

Now whether this reduction will be enough to bring the growth of imports in line with the growth of exports I think is not clear but I believe that a consensus on the trade accounts would be that there might be some small improvement.

Senator PERCY. Dr. Stein, would you want to comment on the question?

Mr. STEIN. Well, this is not a field of my activity but I agree in general with what Dr. Houthakker has said.

Senator PERCY. Thank you, Mr. Chairman.

Chairman PATMAN. Now, we have one other member who would like to interrogate, and we have some alternatives. If we proceed after that I think we will be obligated to have an afternoon session, if one can be arranged, and at which time other members will come back. Or since we have permission for any member to ask questions in writing to be answered in the record we could let that suffice; the third alternative would be if there should be a demand from the members to have you gentlemen back later, at some time that is mutually satisfactory, if it can be arranged?